

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 167 - HB 409

February 3, 2023

SUMMARY OF BILL: Exempts fresh, frozen, and canned fruits and vegetables that are for human consumption from the 4.0 percent sales and use tax on the retail sale of food and food ingredients.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact –

\$127,230,800/FY23-24 and Subsequent Years

Decrease Local Revenue – Net Impact –

\$90,393,300/FY23-24 and Subsequent Years

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-6-702(a), local governments are authorized to levy a tax on the same privileges subject to the state sales tax rate. Elimination of the sales and use tax on the retail sale of food and food ingredients will also eliminate the local option sales tax.
- The current state sales tax rate on the retail sales of food and food ingredients is 4.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.0276 percent.
- According to the United States Bureau of Labor Statistics, fruits and vegetables comprise 19.64 percent of the mean family's "Food at Home" expenditures.
- Collections from food sales tax were \$633,889,598 in FY21-22.
- Fiscal Review Committee staff's current estimates for total sales tax collection growth rates are 8.53 percent in FY22-23 and 4.06 percent in FY23-24. Assuming identical growth rates in sales tax collections from retail sales of food and food ingredients, total such collections under current law are estimated to be \$715,891,572 in FY23-24 ($\$633,889,598 \times 1.0853 \times 1.0406$). For the purposes of this fiscal analysis, this number is assumed to remain constant into perpetuity.
- Total taxable food sales are estimated to be \$17,897,289,300 ($\$715,891,572 / 4\%$).
- Taxable expenditures on fruits and vegetables are therefore estimated to be \$3,515,027,619 ($\$17,897,289,300 \times 19.64\%$).
- The recurring decrease in state revenue is estimated to be \$134,938,255 [$(\$3,515,027,619 \times 4\%) - (\$3,515,027,619 \times 4\% \times 4.0276\%)$].

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- The recurring decrease in local revenue is estimated to be \$93,538,541 $[(\$3,515,027,619 \times 2.5\%) + (\$3,515,027,619 \times 4\% \times 4.0276\%)]$.
- Fifty percent of tax savings, or \$114,238,398 $[(\$134,938,255 + \$93,538,541) \times 50\%]$, will be spent in the economy on non-food sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on non-food sales-taxable goods and services is estimated to be \$7,707,448 $[(\$114,238,398 \times 7.0\%) - (\$114,238,398 \times 7.0\% \times 3.617\%)]$.
- The total recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy on non-food sales-taxable goods and services is estimated to be \$3,145,200 $[(\$114,238,398 \times 2.5\%) + (\$114,238,398 \times 7.0\% \times 3.617\%)]$.
- The net recurring decrease in state revenue as a result of this legislation in FY23-24 and subsequent years is estimated to be \$127,230,807 $(\$134,938,255 - \$7,707,448)$.
- The net recurring decrease in local revenue as a result of this legislation in FY23-24 and subsequent years is estimated to be \$90,393,341 $(\$93,538,541 - \$3,145,200)$.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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